

Message Text

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SUBJECT: IBM PROBLEMS IN INDIA

1. ON APRIL 5, IBM REPS RALPH PFEIFFER (BOARD CHAIRMAN, IBM WORLD TRADE AMERICAS/FAR EAST CORPORATION) AND HOWARD G. FIGUEROA (VICE PRESIDENT-FAR EAST, IBM WORLD TRADE AMERICA/FAR EAST CORPORATION) CALLED ON DEPUTY ASSISTANT SECRETARY DUBS. PURPOSE OF CALL WAS TO REVIEW HISTORY OF IBM NEGOTIATIONS WITH GOI SINCE PASSAGE FOREIGN EXCHANGE REGULATION ACT (FERA).

2. PFEIFFER SAID IBM HAD TRIED FOR TWO YEARS TO NEGOTIATE PACKAGE WITH GOI WHICH INCLUDED FOLLOWING ELEMENTS:

A. IBM WOULD EXPORT 100 PERCENT OF ITEMS MANUFACTURED IN INDIA.

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B. WITH CERTAIN MINOR EXCEPTIONS, IBM WOULD AGREE TO SALE

TO CUSTOMERS OF ALL EQUIPMENT NOW LEASED IN INDIA.

C. IBM WOULD AGREE TO DIVEST ITSELF OF COMPUTER SERVICE CENTER IN INDIA.

D. IBM WOULD SET UP, AT NO COST TO GOI, COMPUTER SCIENCES CENTER IN INDIA.

E. IBM WOULD MAKE ONE TIME LOAN OF \$6 MILLION TO GOI TO FINANCE COMPUTER-RELATED RESEARCH.

F. IBM WOULD RETAIN 100 PERCENT OF EQUITY IN OPERATION IN INDIA. - -

G. IBM WOULD BE PERMITTED TO PROVIDE MAINTENANCE FOR COMPUTERS IN INDIA FOR TEN YEAR PERIOD.

H. IBM WOULD BE AUTHORIZED TO IMPORT ANNUALLY INTO INDIA GOODS AND SERVICES AMOUNTING TO 80 PERCENT OF VALUE OF COMPANY'S EXPORTS. - -

3. PFEIFFER SAID HIS COMPANY HAD NEGOTIATED IN GOOD FAITH WITH GOI AND SINCERELY BELIEVED THAT IBM HAD MADE GOOD OFFER. DESPITE EARLIER INDICATIONS THE PACKAGE WOULD BE ACCEPTED, IBM WAS NOTIFIED EARLY THIS YEAR THAT THEY WOULD HAVE TO REDUCE EQUITY POSITION TO 40 PERCENT. IF EXPORT SECTOR WERE SPLIT OFF FROM REST OF IBM OPERATION, PARENT CORPORATION WOULD BE ABLE TO RETAIN 100 PERCENT OF EQUITY OF EXPORT ORIENTED SECTOR, BUT DIVEST TO 40 PERCENT IN OTHER SECTORS.

4. ACCORDING TO PFEIFFER, IBM IS PREPARED TO BE REASON-ABLE, BUT IS NOT WILLING TO STAY IN INDIA AT ANY COST. SIZE OF OPERATION (\$25 MILLION) AND ANNUAL PROFIT (\$1 MILLION) ARE NOT SIGNIFICANT ENOUGH FOR CORPORATION TO COMPROMISE WHAT IT CONSIDERS ARE BASIC BUSINESS PRINCIPLES. IBM REPORTEDLY DETERMINED NOT TO COMPROMISE ON BASIC ISSUES OF A) IMPORT ENTITLEMENT, B) MAINTENANCE AGREEMENT, AND C) RETENTION OF 100 PERCENT EQUITY POSITION.

5. PFEIFFER PLANS TO GO TO INDIA APRIL 20 TO RENEW OFFER LIMITED OFFICIAL USE

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(POSSIBLY SOMEWHAT MODIFIED) TO GOI. HE WISHES TO CALL ON AMBASSADOR DURING THAT VISIT. STRATEGY FOR APRIL VISIT WOULD BE TO TRY TO TALK REASONABLY WITH MENON (HEAD OF GOI NEGOTIATING TEAM) AND OTHERS WITHOUT ACRIMONY OR ULTIMATUMS. IF THIS PLOY FAILS, HE PLANS TO RETURN TO INDIA A MONTH LATER TO TRY TO SEE MRS. GANDHI AND/OR FINANCE MINISTER SUBRAMANIAM IN LAST ATTEMPT TO NEGOTIATE AGREEMENT WHEREBY IBM CAN REMAIN IN INDIA ON ACCEPTABLE

TERMS. FAILING THAT, THE COMPANY IS PREPARED TO PULL OUT.

6. DUBS TOLD PFEIFFER THAT WE THOUGHT INDIA WANTED IBM TO REMAIN IN INDIA, BUT ON GOI TERMS. IBM OFFER SEEMED A GOOD ONE, BUT COMPANY WAS MAJOR TRANSNATIONAL CORPORATION AND THIS WAS LIKELY TO PREJUDICE IBM EFFORTS TO OBTAIN REASONABLE DECISION. WE ASSURED HIM EMBASSY WOULD HELP IN ANY APPROPRIATE WAY.

7. IN CLOSING, PFEIFFER REQUESTED THAT WE TREAT ABOVE INFORMATION AS CONFIDENTIAL. HE ASKED THAT IT BE CLOSELY HELD AND NOT DISCUSSED WITH IBM EMPLOYEES IN INDIA. UE AGREED TO ABIDE BY HIS REQUEST. KISSINGER

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